



**REGULAR MEETING**  
**PUBLIC EMPLOYEES' RETIREMENT BOARD**

**AUGUST 10, 2006**

The regular meeting was called to order by President Carey at 8:30 a.m. Thursday, August 10, 2006. Roll call was taken with all members of the Board being present except Robert Griffith, who was excused. Board members and staff present were:

Carole Carey, President  
John Paull, Vice President  
Jay Klawon, Member  
Troy McGee, Member  
Elizabeth Nedrow, Member  
Terry Smith, Member  
Roxanne Minnehan, Executive Director  
Melanie Symons, Counsel  
Linda Owen, Secretary

**OPEN MEETING**

Jim Christnacht, Stephen C. Kologi and Charles Stohl, AMRPE; Tim Jones, Andy Light, Sue Winchester and Nancy Quirino, Great-West Retirement Services; Jim Kembel, MPPA, MACOP, TIAA-CREF; Don Kinman and Linda Zander, AFSCME; Rick Ryan, Dan Contrell, Chad Nicholson, Douglas H. Neil, Jack Trethewey, and Ed Regele, members of the Montana State Firemen's Association; and Kim Flatow, Member Services Bureau Chief; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; and Carolyn Miller, Administrative Officer, MPERA, joined the meeting.

*No public comment on any subject of interest to the Board not on the agenda.*

**MINUTES OF OPEN MEETING**

The minutes of the open meeting of July 13, 2006 were presented. Mr. Paull moved that the minutes of the previous open meeting be approved. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**MPERA Staff** – Scott Miller has joined the MPERA as legal counsel. He worked for approximately 8.5 years as counsel to the North Dakota PERS, Teachers' Fund for Retirement, State Investment Board and Department of Financial Institutions and Student Loans. North Dakota PERS administers several defined benefit retirement programs, a defined contribution retirement program, a deferred compensation program, a flexible compensation program, and the state's health, life, dental, vision and long-term care insurance programs. His first day was Wednesday, August 9, 2006.

## **EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director**

**Investment Overlap Policy** – The first draft of this policy was presented to the Board at their July 2006 meeting, at which time the Board requested changes before final approval. The changes were made to clarify the total number of investment options and the number of investment options in each class and category. Mr. McGee moved to approve and adopt the DC Plans Investment Option Overlap Policy as modified. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**PIMCO Disclosure of Fees and Board Acknowledgement** – In May 2006, the Board approved use of emerging markets in the 457 Deferred Compensation Plan's stable value fund, on a limited basis, specified as follows:

- 1) Combined Emerging Markets and to Below BBB- (credit quality) of no more than 10% of the portfolio;
- 2) Emerging Markets, utilizing the PIMCO Emerging markets Fund and Developing Local Market Fund only of no more than 5% of the portfolio.

Because PIMCO's open-end mutual funds are, or will be, used in a Separate Account, PIMCO is required to disclose the full fee schedules for the open-end mutual fund and reduce the fees for the Separate Account accordingly. PIMCO's ability to perform these functions, assess the fees and requirement to disclose and reduce the Separate Account fees, are subject to federal regulations. PIMCO provided the Disclosure Agreement and a prospectus of the funds they are using in the Stable Value as part of their emerging market allocation.

Mr. Klawon moved that the Board accept and sign the PIMCO fees disclosure for use of their mutual fund within the 457 Deferred Compensation Plan's stable value fund's separate account. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Town of Whitehall - 457 Resolution and Adoption Agreement** – A Town of Whitehall employee had attended a PERS Retirement Plan Choice workshop. These workshops conclude with a brief discussion of the "three-legged retirement stool" and different arrangements for savings – including an introduction to the 457 Plans. After the workshops, a full 457 Plan presentation is given. The Town of Whitehall employee thought offering the 457 Plan was a great idea and approached both her employer and MPERA about joining the State 457 Deferred Compensation Plan. Information was sent to the Town of Whitehall in April 2006, followed by a presentation to the Town Commissioners in May 2006. After the presentation, the Town Commissioners reviewed the required Resolution and Adoption Agreement and signed them at their July 2006 meeting.

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Mr. McGee moved that the Board accept and sign the Resolution and Adoption Agreement allowing the Town of Whitehall to join the State 457 Deferred Compensation Plan, effective October 1, 2006. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Out of State Travel Authorization** – The Board was requested to authorize two staff and two Board members to attend the Defined Contribution Conference in San Francisco, CA, October 8-10, 2006. Registration would be waived for any Board members attending. Mr. McGee made a motion to approve the Pension and Investment Defined Contribution Conference travel request for Kathy Samson and one other staff, and up to two Board members. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Out of State Travel Authorization** – The Board was requested to authorize Diann Leveandowski to attend the CAFR Preparation Workshop in Minneapolis, MN, August 26-28, 2006. Mr. Klawon made a motion to approve the CAFR Conference travel request for Diann Levandowski. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**DC Plans RFP Committee Report** – Ms. Nedrow gave a brief report, stating input from the Procurement Office is mostly “hand-off,” except for collecting the paperwork and making sure all submissions are received by the deadline. Much of the RFP language is standard language required by the State. Ms. Nedrow focused mainly on the scope of the project. The RFP committee has spent a lot of time working on describing the scope of the project, a narrative of what they expect the service provider to provide. They have not spent a lot of time on a second key area where the RFP committee and the Board have the majority of the discretion in setting the points. First, the committee describes what the scope is, the services expected according to the standards. Then they assign points and sets out the mechanism where they will evaluate and score the proposal. The committee will need input from the Board on the second phase of scoring and evaluating.

Ms. Nedrow reminded Board members that, if they receive any calls asking about the RFP process, or are asked to dinner by possible proposers, etc., they are to direct those people to Devin Garrity, the procurement officer in charge of the solicitation. If an offeror or proposal asks for an exception to the standards, that exception will be categorized as either non-material or material. If it is a non-material request for exception, the Board can still process that proposal if it is from the highest scoring offeror. It can then be specifically addressed with the exceptions and negotiations in the contract phase. If the request for an exception is material, the Board would have to rewrite the RFP so all offerors would have the chance to address that exception. Ms. Samson noted that the State (the State Procurement Bureau) would make the decision on whether an exception was material or non-material, if it was an exception to the standard contract language. If it was something within the scope of service, or a requirement that the Board has established, then it would be the Board’s discretion on whether it was material or not.

Another critical topic to the RFP process is the Price Sheets. Ms. Nedrow stated the price sheets will dove-tail with the description of the scope of services. The offerors will be required to provide separate pricing for specified service. This will give staff the flexibility to consider the cost versus the benefit of being able to provide a service in-house using existing staff functions.

Ms. Nedrow explained that when proposals are received, they will initially be classified as responsive or non-responsive, and that will be done by the Procurement Office. The RFP committee then evaluates and scores the proposals. After the Procurement Office has determined whether the offerors have met the RFP's needs and basic requirements within regulations, are responsible, and physically and financially able to perform the contract, the RFP committee will evaluate the remaining proposals and request top scoring offerors to present to the Board. If necessary, the committee will recommend that the Board seek discussion/negotiation or a best and final offer in order to determine the highest scoring offerors. The scoring sheets will contain a threshold level where the responses will have to meet a certain percentage before they could come before the Board.

The process for procurement is set in state law and is very specific. Ms. Samson pointed out the scope of services needs to be defined before scoring criteria can be defined and points assigned to it. Ms. Nedrow added that once the committee and Board make a final determination on contract award, the procurement officer will review the recommendation to ensure its compliance with the RFP process and criteria before concurring in the Board's recommendation.

The Board will be seeking unbundled administrative and recordkeeping services, and they will determine if some or all of the requested administrative services will be provided in-house or have different providers for each service. Offerors may submit proposals for administrative services only, recordkeeping services only, or both services. Ms. Nedrow would particularly appreciate the Board reading through Section 3.6 - "Administrative Services Sought" and provide feedback on any issues they may have. Ms. Samson felt the Board should be aware that offerors will be asked how they intend to maintain confidential participant data. Customer service duties, the website, and the reporting information are all key to how the vendor will be interacting with the participants, and the vendor will be expected to attend certain meetings onsite.

Ms. Nedrow briefly reviewed Section 3.6 - "Recordkeeping Services Sought," covering transition and implementation, daily transaction capabilities, contribution and distribution processing, website and voice response capabilities, and customer service representatives and how important it is that participants have availability and a direct connection.

Ms. Samson addressed Fees Disclosure pointing out that the offeror may not accept any compensation from any source for their recordkeeping services other than the price explicitly stated with the Price Sheets. This is intended to insure that any fees the recordkeeper receives through any other arrangement are fully disclosed to the Board and to the extent possible, those fees are given back to the participants and not used for the advantage of the recordkeeper. The recordkeeper would already be getting paid by the participants.

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Ms. Nedrow added that, under Section 3.7.14 – “Fees,” recordkeeping service fees must be proposed as either a flat dollar per account or per member. Administrative fees may not be proposed as an asset based fee, and all fees will be deducted from participant accounts as explicit, fully disclosed fees. She also noted Section 3.7.18 – “Ancillary Services.” Through the term of this contract, the Board anticipates that additional RFP’s may be issued for such services as advice, managed accounts, self-directed brokerage options, etc. The committee wants to make sure the service provider that is chosen has the capability to add on other services the Board may decide on, or they should be prepared to interface and work with other potential providers of such services.

The RFP committee will next be addressing the offeror qualifications/information requirements, cost proposal, and evaluation process. The Board thanked Ms. Nedrow, Mr. Smith and Ms. Samson for the excellent job they have done so far.

**Custom Asset Allocation Funds** – At the July 2006 meeting, the Board decided to close the Great West Profile Funds effective September 30, 2006 and provided participants in the Profile Funds asset allocation models based on the remaining funds in the Plan. Perry Christie, with Great West Retirement Services, followed up with Kathy Samson regarding comments at the July 2006 Board meeting regarding custom-built asset allocation funds. Staff’s current recommendation is to accept the proposal provided by Great West with the following conditions:

- 1) The custom asset allocation funds must be in operation no later than Tuesday, September 5, 2006. This timeframe is necessary to comply with the Board’s Investment Policy Statement which provides a 90-day window for participants in discontinued funds to transfer their assets to replacement funds. Per previous conversations with Great West, all fund changes for this year will occur on December 4, 2006.
- 2) The \$3,300 per fund/per year must be the only fee assessed for the funds; must be explicit and may not be deducted as part of the daily unit value.
- 3) Great West may reserve the right to review the proposed composition and bring administrative issues to the Board’s attention. Great West may not approve the composition. As plan fiduciaries and trustees, approval and final authority for plan structure and investment options is a function of the Board.

Ms. Samson pointed out this is a good deal for participants of the 457 Plan, to have the ability to automatically allocate their assets through one selection. Having our current existing investment options used within those asset allocation models then insures that all of the investment options are being analyzed on an annual basis and adhering to the criteria in the Board’s Investment Policy Statements.

Tim Jones checked with Perry Christie, both with Great West Retirement Services, to confirm there were no issues with the conditions and to make sure timelines could be met. They can meet the September 5, 2006 deadline, and Mr. Jones will fax the allocations for the funds.

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Mr. McGee moved to accept the Great West Retirement Services proposal to build custom asset allocation funds using the 457 Deferred Compensation Plan's current investment options as the underlying funds, provided the above conditions and the contract amendment are agreed upon and met by Great West Retirement Services. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

### **Custom Asset Allocation Funds Decision Points**

Composition - With the acceptance of the Great West Retirement Services (GWRS) proposal for custom asset allocation funds, the Board will decide on the proposed composition of the three asset allocation funds.

- Conservative Asset Allocation Fund (75% fixed income, 25% equity)
- Moderate Asset Allocation Fund (40% fixed income, 60% equity)
- Moderately Aggressive Asset Allocation Fund (25% fixed income, 75% equity)

The Board needs to either approve or reapprove the structures in composition, or recommend changes. Mr. Klawon moved to approve the composition of the asset allocation funds with modification for the Moderately Aggressive Asset Allocation Fund to 20% fixed income, 80% equity. Ms. Nedrow seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Rebalancing timing – The Board needs to decide when they want the asset allocation funds rebalanced: monthly, quarterly, semi-annually, annually, or other. Mr. Klawon moved to set up rebalancing on an annual basis. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Method of assessing the \$3,300 fee - Staff requested Board directive on how to pay the \$3,300 per fund annually. The Board's options would be to charge the fee to the Plan as administrative/plan structure cost, or charge only to custom fund participants. Since it is an option that is available to everyone throughout the plan, Mr. Klawon moved to assess fees across the whole plan. Mr. Smith felt that participants who choose this option should bear the marginal cost to the plan. Ms. Nedrow felt that, although Mr. Smith made a worthwhile point, this is a plan cost with the funds available to all participants. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye, and Mr. Smith voting nay.

Mapping – The three custom asset allocation funds are conservative, moderate and moderately aggressive. The five current Profile funds are conservative, moderately conservative, moderate, moderately aggressive and aggressive. The Board needs to provide mapping directive on where the assets left in the Profile Fund on December 4, 2006 are to go. Ms. Nedrow moved to map the funds as follows:

- 1) Conservative Profile fund assets mapped to the Conservative asset allocation fund.
- 2) Moderately Conservative and Moderate Profile fund assets mapped to the Moderate asset allocation fund.
- 3) Moderately Aggressive and Aggressive Profile fund assets mapped to the Moderately Aggressive asset allocation fund.

Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Profile funds – At the July Board meeting, the Board made a motion to discontinue the Profile funds effective September 30, 2006. Ms. Samson pointed out that a discontinued fund is not really discontinued until the end of the window, which would be December 4. Mr. Klawon moved that the Profile funds will be closed December 4, 2006, the same time as the other changes are made to the 457(b) fund allocations. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Presentation to Betty Lou Kasten** – Via conference phone, on behalf of the MPER Board, staff, and members of the retirement plans, President Carey presented Betty Lou Kasten with a plaque in appreciation of her valuable service on the Board, from January 6, 2003 to March 31, 2006. Mrs. Kasten thanked everyone for the recognition which was very much appreciated. She will be greatly missed.

**Amendment to 457 Plan Administration and Recordkeeping Contract** – The Board has a contract with Great West Retirement Services (GWRS) to provide administrative and recordkeeping services. Mr. Klawon moved that the Board accept the proposed amendments to the 457 Plan Administration and Recordkeeping Contract that require Great West to create, maintain and recordkeep three custom asset allocation funds at the cost of \$3,300 per fund. He further moved that Great West rebalance the custom asset allocation funds on an annual schedule. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**FYE 2006 Budget Report** – The financial system for FY 2006 has closed and Barb Quinn provided the fourth quarter year end status report. At the end of FY 2006, we were under budget in all programs, spending 86% of the overall anticipated budget. The DB expenses were \$696,138 under the cap for FY 2006. Ms. Quinn answered any questions Board members had.

**Jim Van Meter Investment Workshop** – Ms. Minnehan addressed an invitation received from Mr. Van Meter regarding an investment seminar on “Strategies of advanced money management and retirement planning.” The Montana Public Employee Retirement Administration (MPERA) and the Teachers’ Retirement System (TRS) sent a joint letter to the presenter of this seminar, requesting he make disclaimers that he is not an expert on these retirement plans. The State Auditor’s Office is also looking into this. Ms. Symons and Ms. Samson attended the August 1, 2006 workshop on and reported that Mr. Van Meter had complied with our disclaimer requests.

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**Board Member Generic Disclosure** – Following Ms. Symons' NAPPA report at the July meeting, the Board requested that she prepare a disclosure statement for Board members to use prior to voting on decisions that may impact their own retirement benefit. The perceived need for a disclosure statement arises from allegations that San Diego retirement managers and board members voted for changes that increased their own retirement benefits while negatively impacting the retirement system.

Ms. Symons composed a draft generic statement of disclosure for the Board members to recite personally when impacted by a Board decision. The language was adopted from fiduciary requirements found in ERISA and Ms. Symons provided copies of those statutes. President Carey directed that the disclosure statement be ready for the next Board meeting.

**South Carolina's Working Retiree Contract** – Following Ms. Symons' NAPPA report at the July meeting, the Board requested additional information regarding the South Carolina Supreme Court decision regarding impairment of contract issues. Ms. Symons provided a copy of the initial decision and a copy of the decision remanding one issue to the district court for additional consideration. While the decisions are interesting, their relevance to the Board is minimal.

**Board of Investments Update** – Mr. Paull gave a brief update.

Real estate investment pool - Cortland Partners is working with R.V. Kuhns on putting together some core property funds to invest in.

Montana International Equity Pool (MIEP) – contract negotiations with the new managers are still ongoing. Because of negotiations, Clifford Sheets has been able to lower the fees and prices being charged, with estimated savings of approximately \$200,000. The BOI diversified the MIEP and changed it from a largely passive approach to a more active management approach. The benchmark was also changed. They hope to have monies invested by the end of September.

Asset liability study for PERS – It may not be completed until the end of December or early January. R.V. Kuhns will start the study possibly the latter part of September. Ms. Minnehan provided a list from Carroll South of the Board's pension investment returns for Fiscal Year 2006.

**Litigation** – Ms. Symons gave a brief update on pending litigation.

**Joseph Baumgardner** – Scott Miller will be replacing Kelly Jenkins on the Baumgardner case and will be working with Jim Goetz, outside legal counsel.

**Terry Teichrow Lawsuit** – The State of Montana has agreed to defend the MPER Board in the Teichrow lawsuit. Risk Management and Tort Defense contracted with a private attorney in Helena, Beth Baker, who will be representing all named in the lawsuit.



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Montana Air National Guard (MANG) Firefighters in Great Falls – In 2001, legislation allowed new MANG firefighters to join the Firefighters' Unified Retirement System (FURS), but existing firefighters had to stay in PERS. The existing firefighters sued the State, alleging equal protection violations. Judge McCarter agreed the statute violates equal protection.

**Miscellaneous** – The SAVA Committee will be meeting September 11, 2006. The Joint Issues Committee meeting will be September 28.

**Future Board Meetings** –Thursday: September 14, October 12, November 9, December 14, 2006.

**Operational Summary Report** - The Executive Director presented an operational summary report for the month of June 2006, answering any questions Board members had.

Mr. Klawon departed the meeting.

**The following portion of the meeting relates to matters of individual privacy. President Carey determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.**

## **CLOSED MEETING**

**Teichrow Lawsuit** - Ms. Symons introduced Beth Baker, who will be representing the Board and other named parties in the Terry Teichrow lawsuit. Ms. Baker is an attorney in private practice in Helena and has contracted with Risk Management and Tort Defense to handle the case. Ms. Symons will provide the Board with status updates. If there is something of significance to report or explain, Ms. Baker will address the Board.

## **MINUTES OF CLOSED MEETING**

The Executive Director presented the minutes of the closed meeting of July 13, 2006. Ms. Nedrow moved that the minutes of the previous closed meeting be approved as amended. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye.

## **CONTESTED CASES**

**Carol Hoaglund - Informal Reconsideration** – Carol Hoaglund's claim had been denied by the Board at their June 1, 2006 meeting, pending additional medical information. Following a lengthy discussion, Mr. McGee moved that the Board defer their decision on Carol Hoaglund's claim to the October 12, 2006 meeting. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye.

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**John Kevin Thane - Informal Consideration** – Mr. Thane inquired about the amount of service credit he will receive if he purchases a refund from the Teachers' Retirement System (TRS). Following discussion, Mr. Smith moved that the Board uphold the previous staff decision that if Mr. Thane elects to purchase this service, the service credit purchased will be in accordance with statute. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye.

**Lu Ellen Goodrum - Informal Consideration** – It was determined that an error had occurred in a January 2006 estimate of retirement calculation. Ms. Goodrum is appealing the adjustment to her benefit to correct the estimating error. After discussion, Ms. Nedrow moved that the Board uphold the previous staff decision that the adjustment to the retirement benefit for Ms. Goodrum stands. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye.

**Tim Elsea - Informal Consideration** – A PERS retirement plan election was not filed within Mr. Elsea's statutory 12-month election window and he defaulted to the Defined Benefit Retirement Plan (DBRP). Staff responded that statute and administrative rules are clear and do not provide a discretionary mechanism. Mr. Elsea is appealing this staff determination.

Mr. McGee felt the Board had no real choice in the matter. Following discussion, Ms. Nedrow moved that the Board uphold Tim Elsea's default to the DBRP, in accordance with statutes and administrative rules. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with four of the attending members voting aye, and Mr. Smith voting nay.

**David Watson - Informal Reconsideration** – The Board reviewed and denied Mr. Watson's original claim at the May 2006 meeting. Mr. Watson then requested reconsideration of that determination. At the July 2006 meeting, the Board moved to postpone their decision on the disability claim for David Watson pending the results of an evaluation. The evaluation was received and reviewed. Mr. McGee moved to approve a disability retirement with annual review for David Watson. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye.

**RETIREMENT REPORT** – Kim Flatow, Member Services Bureau Chief

**Disability Claim** – Ms. Linjatie presented a disability claim for Board consideration. Mr. Paull made a motion for approval of a duty-related disability claim as recommended for Gregory Tadman, without annual review. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye.

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**Finalized Service/Disability Retirement Benefits, Monthly Survivorship/Death Benefits and Funeral Benefits** - Applications for service retirements/finalized disability benefits, applications for monthly survivorship-death benefits, and applications for funeral benefits were presented to the Board. Mr. Paull made a motion to approve the retirement benefits as presented. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye.

**Contested Case Report Update** - The Board Attorney presented a contested matter status report update.

**W. G. Gilbert III** – Ms. Nedrow moved to authorize Ms. Symons to settle the Gilbert matter by giving him employee status for his flat rate fees, but refunding to the city the contributions they made for his extra services. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye.

## **ADJOURNMENT**

There being no further business to come before the Board at this date, Mr. Paull made a motion to adjourn the meeting. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the five attending members voting aye. The next meeting is tentatively scheduled for September 14, 2006, at 8:30 a.m. in Helena.